

San Bernardino Associated Governments	Policy	20100
Adopted by the Board of Directors October 2, 1996	Revised	11/6/02
Investment Policy	Revision No.	6
Table of Contents Purpose Definitions Policy Investment Goals Prudent Investor Standard Scope Delegation of Authority Conflicts of Interest Portfolio Maturity Limits Allowable Investments for SANBAG Operating Funds Additional Allowable Investments for Bond Proceeds Only Prohibited Investment Transactions Investment in "Derivative" Securities Leveraging Safekeeping of Securities Competitive Bidding of Investments Qualifications of Broker/Dealers Annual Management Review and Audit Segregated Investment, Execution and Record Keeping, and Reporting Quarterly Reporting Annual Submission of Investment Policy Revision History		

I. PURPOSE

The purpose of this policy is to provide guidelines for the investment of funds based upon prudent cash management practices and in conformity with all applicable statutes.

II. DEFINITIONS (None)

III. POLICY

The Board of Directors of the San Bernardino Associated Government (SANBAG) and its related authorities and agencies recognizes its responsibility to direct the investment of funds under its care. This policy is designed to meet the specific needs of SANBAG while ensuring the safety of funds.

IV. INVESTMENT GOALS

The investment of funds by SANBAG shall be guided by the goals of safety, liquidity, diversification, and a reasonable market rate of return.

Safety: Safety of principal is the foremost objective of the investment program. Investments of SANBAG will be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity: SANBAG=s investment portfolio will remain sufficiently liquid to enable SANBAG to meet all operating requirements and budgeted expenditures, including an additional amount to cover reasonably estimated contingencies.

Diversification: The investment portfolio will be diversified to avoid risk regarding specific security types or individual financial institutions.

Reasonable Market Ratio of Return: The investment portfolio will be designed to attain a market average rate of return through economic cycles which is consistent with SANBAG=s primary goals of safety, liquidity and diversification.

V. PRUDENT INVESTOR STANDARD

SANBAG investments are governed by the Prudent Investor Standard, set forth as follows:

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part to an overall investment strategy, a trustee is authorized to acquire investments as authorized by law.

VI. SCOPE

The investment policy applies to all financial assets held by SANBAG, including bond proceeds. Funds specifically exempt from this policy include employee deferred compensation plans, employee pension plans, or assets held in trust by SANBAG with specific investment instructions.

VII. DELEGATION OF AUTHORITY

SANBAG's bylaws designate the Executive Director as Treasurer for the Agency.

Under the direction and oversight of the Executive Director, and in consultation with SANBAG's investment adviser, the Chief Financial Officer (CFO) shall direct the investment of SANBAG operating funds which are not invested in the County Pool or in LAIF ("DIRECT INVESTMENTS"). In addition, the CFO, under the direction and oversight of the Executive Director, and in consultation with SANBAG's investment adviser shall review the alternatives for the investment of bond proceeds, and shall recommend such investments to the SANBAG Board for its approval. All officials, staff members and consultants are directly accountable to the SANBAG Board for investment functions.

VIII. CONFLICTS OF INTEREST

All officials, staff members and consultants involved in the investment functions will refrain from personal business activity that could conflict with the execution of the investment function or which could impair their ability to make impartial investment decisions. Officials, staff members, and consultants will disclose to the Executive Director any financial interest with a financial institution or broker that conducts business with SANBAG. Officials, staff members and consultants will further disclose any personal financial positions that could be related to the performance of SANBAG's portfolio.

IX. PORTFOLIO MATURITY LIMITS

SANBAG's investments in the San Bernardino County Pool and in LAIF are subject to maturity limits and other investment restrictions as imposed by the governing bodies of those agencies. The maximum maturity of any other investment of operating funds ("direct investments") may not

exceed **two** years. Investment of bond proceeds shall be made in consideration of the liquidity needs of the bond fund, and may not exceed five years, except for securities to be held in a defeasance escrow for refunded bonds and bond debt serve reserve funds.



X. ALLOWABLE INVESTMENTS FOR SANBAG OPERATING FUNDS

Investment of local agency funds is governed by the California Government Code, Sections 53600 et seq. and 53635 et seq. Should the Government Code become more restrictive than this policy, the Government Code restrictions shall prevail.

It shall be SANBAG's long term objective to diversify its investments by maintaining approximately one half of its investable operating funds in LAIF, and approximately one half in direct investments in US Treasury securities, Federal agency notes, commercial paper, and money market mutual funds. In order to minimize transfers among allowable investment vehicles, the allowable maximum for the LAIF shall be 60%. Because it can be fully diversified, up to 100% of SANBAG operating funds may be comprised of direct investments. In addition, SANBAG shall maintain adequate funds in the San Bernardino County Pool to fund checks drawn on the County Treasury. It is estimated that an amount not to exceed 30% of SANBAG's operating funds is sufficient to fund checks drawn on the County Treasurer.

The following investment vehicles are permitted for the investment of operating reserves:

1. San Bernardino County Investment Pool		
	Quality:	AAA
	Portion of Portfolio:	30% maximum
	Term:	Average maturity of fund must be less than 3 years

2. California State Local Agency Investment Fund (<u>LAIF</u>)		
	Quality:	Not rated
	Portion of Portfolio:	60% maximum
	Term:	Average maturity of fund must be less than 3 years.

Direct Investments

3. Money Market Mutual Funds		
	Quality:	AAA
	Portion of Portfolio:	20% maximum
	Term:	Limited to funds which strive to maintain a share value of \$1.00 (money market funds) and which invest in securities permitted by the California Government Code.

4. United States Treasury Bill, Notes, and Bonds		
	Quality:	Not applicable
	Portion of Portfolio:	No limit
	Term:	2 year maximum

5. Government Agency Securities (Includes Federal agency obligations and United States sponsored enterprises)		
	Quality:	Not applicable
	Portion of Portfolio:	40%
	Term:	2 year maximum

6. Commercial Paper		
	Quality:	P1 (Moody=s) and A1 (Standard and Poor=s)
	Portion of Portfolio:	15%
	Issue Limit:	5%
	Term:	270 day maximum

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XI. ADDITIONAL ALLOWABLE INVESTMENTS FOR BOND PROCEEDS ONLY

A. California Arbitrage Management Program (CAMP) separately managed portfolios and money market funds which are rated AA or better and have an average maturity of one year or less.

B. Investment agreement with a AA rated bank or collateralized investment agreement with an A rated bank or an investment acceptable to a bond insurance company and approved specifically by the SANBAG Board.

C. Debt service reserve funds may be invested longer than five years as long as they are permitted by state law and investments are readily available for bond payments and other bond purposes (refundings, defeasance, etc.).

D. U.S. Treasury Securities and State and Local Government Securities having a maturity longer than five years are permitted for escrowed defeasances.

E. Forward purchase agreements, forward delivery agreements and debt service reserve agreements approved specifically by the SANBAG Board.

F. Other investments as permitted by bond indentures.

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XII. PROHIBITED INVESTMENT TRANSACTIONS

Any investment not specifically allowed by this policy is prohibited.



XIII. INVESTMENT IN "DERIVATIVE" SECURITIES

Direct investment in derivative securities is prohibited. A "derivative security" is any investment the value of which is derived from an underlying security, commodity or index. For purposes of this policy, a derivative is any security that has principal and/or interest payments which are subject to significant uncertainty as to timing, and/or amount.

It is understood that the County Pool and LAIF may invest in certain derivative securities.



XIV. LEVERAGING

All forms of portfolio leverage, including, but not limited to, securities lending programs, reverse repurchase agreements, and margin accounts, are prohibited.



XV. SAFEKEEPING OF SECURITIES

SANBAG shall enter into an agreement with a bank trust department to serve as the safekeeping agent for all direct investments. The safekeeping agent shall hold all investments in an account for the sole benefit of SANBAG. All direct investments shall be delivered by the broker to SANBAG's safekeeping account on a delivery versus payment basis.



XVI. COMPETITIVE BIDDING OF INVESTMENTS

The investment procedures require that approved broker/dealers compete for direct investment purchases and sales to ensure that all investment transactions are free from favoritism. The CFO shall determine the best execution price for SANBAG, and act accordingly.



XVII. QUALIFICATIONS OF BROKER/DEALERS

All investment transactions initiated on behalf of SANBAG shall be executed through government securities dealers reporting as primary dealers to the New York Federal Reserve Bank of New York or direct issuers (defined as corporations that issue their own securities). Primary dealers wishing to do business with SANBAG must meet the following criteria:

1. The primary dealer representative must have demonstrated experience providing investment services to public agencies in California.
2. The primary dealer representative must provide SANBAG with a minimum of three references of finance officials from public agencies in California.
3. The primary dealer representative must demonstrate expertise in the particular categories of investment securities that meet SANBAG's objectives, as described in SANBAG's Investment Policy.

Transactions may be executed through secondary dealers who have received prior approval to do business with SANBAG. In order to obtain approval, secondary dealers must complete a broker/dealer application provided by SANBAG, and must meet the following criteria to the satisfaction of SANBAG's Chief Financial Officer:

1. The broker/dealer must qualify under SEC Rule 15C3-1 (uniform net capital rule).
2. The broker/dealer and the broker/dealer representative must be properly registered with the appropriate state and federal regulatory bodies.
3. The broker/dealer should be a market maker and have a strong market presence in one or more product areas that are pertinent to SANBAG's investment goals.
4. The broker/dealer and its representative should be well established in the business and have an acceptable track record.

Both primary and secondary broker/dealers will be evaluated on trade execution, accuracy and timeliness of information provided, and quality of service.

Each broker/dealer will be sent a copy of this Policy, a broker/dealer application, and a list of persons authorized to execute transactions on SANBAG's behalf. In order to be considered for investment business opportunities with SANBAG, each firm must acknowledge receipt of such materials.



XVIII. ANNUAL MANAGEMENT REVIEW AND AUDIT

An annual audit of all SANBAG's investment policies, practices, procedures, and portfolio status will be conducted by an independent consultant. The consultant will provide SANBAG with written observations and recommendations regarding the adequacy of investment controls.



XIX. SEGREGATED INVESTMENT, EXECUTION AND RECORD KEEPING, AND REPORTING

Monthly reconciliation of the CFO's investment records to bank, broker/dealer, and safekeeping confirmations will be performed by a member of the finance staff other than the CFO.



XX. QUARTERLY REPORTING

The CFO will provide a quarterly report to the Administrative Committee and to the Board of Directors providing the following information:

- A. Breakdown of all securities, investments and moneys held by SANBAG by investment type, issuer, date of maturity, par, dollar amount and percent of portfolio invested in each.
- B. A description of all SANBAG's funds, investments or programs that are under the management of any outside party that is not a local agency. This report must also include market valuation of the portfolio and the source of the valuation.
- C. A statement of compliance with investment policy and a statement denoting the ability of SANBAG to meet its expenditures for the next six months.

XXI. ANNUAL SUBMISSION OF INVESTMENT POLICY

SANBAG's CFO shall render a statement of investment policy to the Board of Directors annually. The Board shall consider the policy, with any changes, in a public meeting.

XXII. REVISION HISTORY

Revision No.	Revisions	Adopted
0	Adopted by the Board of Directors.	10/2/96
1	20100: Added paragraph starting with "It shall be SANBAG's long term objective . . .".	9/3/97
2	No changes.	12/2/98
3	20100.10: Changed percentage of operating funds amount to 20%. 20100.10: Changed percentage of San Bernardino portfolio to 20%.	11/3/99
4	No changes. Re-approved by the Board of Directors.	11/1/00
5	Added Para. 20100.16 Qualifications of Broker/Dealers; re-sequenced existing paragraphs. 20100.16, 20100.17, 20100.18, 20100.19, 20100.20, and 20100.21 to 20100.17, 20100.18, 20100.19, 20100.20, and 20100.22. Revised Par. 20100.10: Revised "...not to exceed 20% of SANBAG's operating funds..." to "...not to exceed 30% of SANBAG's operating funds...", and "Portion of Portfolio: 20% maximum" to "Portion of Portfolio: 30% maximum".	11/7/01
6	Changed paragraph numbering style from 20100.1, 20100.2, 20100.3 etc. to I, II, III, etc. Par. IX: Changed "one year" to "two years". Par. X.4: Changed "1 year maximum" to "2 year maximum". Par. X.5: Changed "1 year maximum" to "2 year maximum". Par. X.6: Changed "180 days maximum" to "270 day maximum".	11/6/02